

37. DRY GAS PRICING STUDY, CITY OF LONG BEACH - W.O. 3262. (INFORMATIVE ONLY)

Mr. Charles Baldwin, Consultant to the Joint Legislative Committee on Tidelands, reported that the Committee had been studying dry gas lease matters in the City of Long Beach pursuant to its mandate from the Legislature. Based upon this mandate, Mr. Baldwin indicated that he had been negotiating with the Commission's staff and with the officials in Long Beach over a dispute in dry gas pricing at Long Beach, the dispute being one of long standing, specifically since 1962.

It was Mr. Baldwin's opinion that the City and the State had come to substantial agreement on how to price the gas during the period under study, and that it had been agreed to consider the possibility of pricing gas in the future on a less complicated method; i.e., on a BTU basis. It was assumed that Pacific Lighting was going to switch over to the BTU basis later this year, and Mr. Baldwin thought this pricing matter should be reported to the Commission so that it will be apprised of the position of the Legislative Committee and the staff at Long Beach on this issue.

The Executive Officer reported that the situation is an extremely complex one. The contract under which discussions have been held with the City of Long Beach, being a net profits contract -- and one in which the State is in the position to negotiate and is authorized by statute to price gas in accordance with criteria established by the Legislature -- is an entirely different matter than consideration of approval of an independent contract made at arm's length, negotiated with a 3rd party and in which the State is not a party. If conclusions are reached and a rational basis is established in connection with gas pricing under the Long Beach net profits contract, the staff will give definite consideration to recommendations to the Commission for adoption of this same rational basis insofar as it may be applicable to future oil and gas leases issued by the Commission.